

TOWN OF DAVIE

TOWN COUNCIL AGENDA REPORT

TO: Mayor and Councilmembers

FROM/PHONE: Bill Underwood/797-1050 by Herb Hyman/797-1016

SUBJECT: Resolution

AFFECTED DISTRICT: n/a

TITLE OF AGENDA ITEM: A RESOLUTION OF THE TOWN OF DAVIE, FLORIDA, AUTHORIZING THE MAYOR TO EXECUTE A LETTER OF ENGAGEMENT WITH GRAU & COMPANY, P.A. TO PROVIDE AUDITING SERVICES.

REPORT IN BRIEF: At a special council meeting of April 27, 2004, the Town Council selected Grau & Company, P.A. as the firm best qualified to provide auditing services and directed staff to negotiate a letter of engagement for such services. Attachment "A" represents the results of those negotiations. Please note that the engagement letter does not include any penalties against the firm for missed deadlines. The Town attempted to have such language added during negotiations but Grau & Company would not agree to a penalty provision. The initial term of the agreement is three (3) years with an option to extend for an additional two (2) year term by mutual agreement of the parties. Extensions, if appropriate, will be handled administratively subject to budgetary approval by the Town Council.

PREVIOUS ACTIONS: Not applicable.

CONCURRENCES: This contract was negotiated by the Budget and Finance Director and has been sent to the Town Attorney.

FISCAL IMPACT:

Has request been budgeted?	yes	
If yes, expected cost: \$85,500 for FY 2003 audit		
Account Name: Audit Expense, 001-0103-512-0302		\$78,000
Professional Services, 040-1058-536-0320		\$7,500
Additional Comments: Not applicable		

RECOMMENDATION(S): Motion to approve the resolution.

Attachment(s):

- Resolution
- Exhibit "A," Engagement letter
- Exhibit "B" Amended Cost Proposal Schedule

RESOLUTION NO. _____

A RESOLUTION OF THE TOWN OF DAVIE, FLORIDA, AUTHORIZING THE MAYOR TO EXECUTE A LETTER OF ENGAGEMENT WITH GRAU & COMPANY, P.A. FOR AUDITING SERVICES.

WHEREAS, at the special council meeting of April 27, 2004, the Town Council selected Grau & Company, P.A. as the firm best qualified to provide auditing services; and

WHEREAS, it is in the Town's best interest to execute a letter of engagement for such services; and

WHEREAS, after review, the Town Council authorizes the Mayor to execute a letter of engagement with Grau & Company, P.A.

NOW, THEREFORE, BE IT RESOLVED BY THE TOWN COUNCIL OF THE TOWN OF DAVIE, FLORIDA:

SECTION 1. The Town Council authorizes the Mayor to execute a letter of engagement with Grau & Company, P.A.. for auditing services which is attached hereto and identified as Attachment "A".

SECTION 2. The initial term of the engagement is three (3) years with an option to extend the engagement for an additional two (2) year term by mutual agreement of the parties. Contract extensions, if appropriate, will be handled administratively by staff subject to budgetary approval by Town Council.

SECTION 3. This resolution shall take effect immediately upon its passage and adoption.

PASSED AND ADOPTED THIS _____ DAY OF _____, 2004

MAYOR/COUNCILMEMBER

Attest:

TOWN CLERK

APPROVED THIS _____ DAY OF _____, 2004



2700 North Military Trail Suite 350
Boca Raton, Florida 33431
(561) 994-9299 (800) 299-4728
Fax (561) 994-5823
www.graucpa.com

April 28, 2004

Town of Davie
6591 Orange Drive
Davie, Florida 33314

We are pleased to confirm our understanding of the services we are to provide the Town of Davie for the fiscal year ended September 30, 2003, 2004 and 2005, with the option of extending the contract for two (2) additional years by mutual agreement of the parties. We will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, which collectively comprise the entity's basic financial statements, of the Town of Davie as of and for the years ended September 30, 2003, 2004 and 2005. Also, the document we submit to you will include the following additional information that will be subjected to the auditing procedures applied in our audit of the financial statements:

1. Combining and individual fund financial statements and schedules
2. Schedule of expenditures of federal awards and state financial assistance

The document will also include the following additional information that will not be subject to the auditing procedures applied in our audit of the financial statements, and for which our accountant's report will disclaim an opinion.

1. Management Discussion and Analysis
2. Budgetary Comparison Schedules
3. Statistical Section
4. Required Supplementary Information

We will not audit the financial statements of the Town of Davie Police Employees Pension Trust Fund or the Town of Davie Firefighters' Pension Plan. The Police Employees Pension Trust and the Firefighters' Pension Plan, together represent 100% of the assets and revenues of the fiduciary fund totals, will be included in the fund financial statements. These financial statements will be audited by other independent auditors whose reports will be furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Davie Police Officers' Retirement System and the Firefighters' Pension Plan, will be based solely on the reports of the other independent auditors.

We will also:

1. Provide the Town and its underwriters of new bond issues with a report on "consent and citation of expertise."
2. Prepare the annual financial report for the Florida Department of Financial Services (formerly the Department of Banking and Finance).
3. Assist the Town in complying with the requirements of the Auditor General regarding the Town's assessment of its financial condition.
4. Prepare a management letter pursuant to the requirements of the Auditor General of the State of Florida.
5. Prepare a report to the State on the Town's Sewage System Capital Improvement account.

Audit Objectives

The objective of our audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the financial statements taken as a whole. Our audit will be conducted in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations; the Single Audit Act of the State of Florida, Chapter 10.550, Rules of the Auditor General and the requirements of *Government Accounting Standards* and will include tests of the accounting records of the Town of Davie and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. This report will include a statement that the report is intended solely for the information and use of the audit committee, management, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Management Responsibilities

Management is responsible for establishing and maintaining internal control and for compliance with laws, regulations, contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal and state award programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will advise you in the preparation of your financial statements, including the schedule of expenditures of federal awards and state financial assistance, but the responsibility for the financial statements remains with you. As part of our engagement, we may propose standard, adjusting, or correcting journal entries to your financial statements. You are responsible for reviewing the entries and understanding the nature of any proposed entries and the impact they have on the financial statements. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting, the selection and application of accounting principles, and the safeguarding of assets. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. You are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations. Additionally, as required by OMB Circular A-133 and Chapter 10.550 Rules of the Auditor General, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

With regard to using the auditor's report, you understand that you must obtain our prior written consent to reproduce or use our report in bond offering official statements or other documents.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your Internet website, you understand that electronic sites are a means to distribute information and,

therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. As required by the Single Audit Act Amendments of 1996, OMB Circular A-133, the Florida Single Audit Act and Chapter 10.550 Rules of the Auditor General, our audit will include test of transactions related to major federal and state award programs for compliance with applicable laws and regulations and the provisions of contracts and regulations and the provisions of contracts and grant agreements. Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors that come to our attention, and we will inform you of any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Identifying and ensuring that the Town of Davie complies with laws, regulations, contracts, and agreements is the responsibility of management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Town of Davie's compliance with applicable laws and regulations and the provisions of contracts and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Audit Procedures—Internal Controls

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinion on the Town of Davie's financial statements.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Tests of controls are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133 and Chapter 10.550 Rules of the Auditor General, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance requirements applicable to each major federal and state award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133 and Chapter 10.550 Rules of the Auditor General.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, we will inform the governing body or audit committee of any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the

internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We will also inform you of any nonreportable conditions or other matters involving internal control, if any, as required by *Government Auditing Standards*, OMB Circular A-133 and Chapter 10.550 Rules of the Auditor General.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash or other confirmations we request and will locate any invoices selected by us for testing.

The audit documentation for this engagement is the property of Grau & Company, P.A. and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a Cognizant or Oversight Agency for Audit or its designee, a federal agency providing direct or indirect funding, or the U.S. General Accounting Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Grau & Company, P.A. personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

Our fees for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) except that we agree that our gross fee, including expenses, will not exceed the amounts on the attached Cost Proposal Schedule. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit.

In addition, in order to assist the Town in filing its Comprehensive Annual Financial Report (CAFR) for the fiscal years ended September 30, 2003, 2004 and 2005 in compliance with regulatory reporting requirements, we will assist in the preparation of the CAFR. Responsibility for the financial statements and contents of the CAFR still remains with the Town. Preparation of the Letter of Transmittal, Management's Discussion and Analysis and the Statistical Section would still be the responsibility of the Town. We estimate the fees for this additional service as shown on the attached Cost Proposal Schedule.

We acknowledge your right to terminate our services at any time, and you acknowledge our right to resign at any time (including instances where in our judgment, our independence has been impaired or we can no longer rely on the integrity of management), subject in either case to our right to payment for charges incurred to the date of termination or resignation.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2001 peer review report accompanies this letter.

We appreciate the opportunity to be of service to the Town of Davie and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Grau & Company, P.A.

RESPONSE:

This letter correctly sets forth the understanding of the Town of Davie.

By: _____

Title: _____

Date: _____

TOWN OF DAVIE
COST PROPOSAL SCHEDULE
SEPTEMBER 30

	<u>Audit *</u>	<u>State Single Audit</u>	<u>CAFR</u>	<u>Printing of CAFR</u>	<u>Total</u>
2003	74,500	3,500	6,000	1,500	\$ 85,500
2004	76,300	3,700	6,200	1,500	\$ 87,700
2005	78,600	3,900	6,400	1,500	\$ 90,400

* - Includes the Federal Single Audit

Exhibit "B"

TOWN OF DAVIE COST PROPOSAL SCHEDULE SEPTEMBER 30

	<u>Audit *</u>	<u>State Single Audit</u>	<u>CAFR</u>	<u>Printing of CAFR</u>	<u>Courtesy Discount</u>	<u>Total</u>
2003	74,500	3,500	6,000	1,500	(5,000)	\$ 80,500
2004	76,300	3,700	6,200	1,500	(5,000)	\$ 82,700
2005	78,600	3,900	6,400	1,500	(5,000)	\$ 85,400

* - Includes the Federal Single Audit

If the amount of time spent on the audit at our standard hourly rates is less than the above maximum amounts, we will bill for the time spent at our standard hourly rate. The firms standard hourly rates increase 5% per year. The standard hourly rates are as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Partner	\$ 225	236	248
Manager	\$ 160	168	176
Senior	\$ 125	131	138
Staff	\$ 100	105	110
Clerical	\$ 60	63	66

Completion of the audit is as follows:

<u>Fiscal Year End</u>	<u>Completion Date</u>
September 30, 2003	September 30, 2004
September 30, 2004	March 31, 2005
September 30, 2005	March 31, 2006